

MACKINAW AREA PUBLIC LIBRARY
MACKINAW CITY, MICHIGAN
Financial Statements
For the Year Ended
June 30, 2006

Prepared By:
Richard E. Mahlmeister, C.P.A.
580 South Nicolet, P.O. Box 996
Mackinaw City, MI 49701

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mackinaw Area Public Library	County Cheboygan-Emmet
Fiscal Year End June 30, 2006	Opinion Date November 25, 2006	Date Audit Report Submitted to State December 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Richard E. Mahlmeister, CPA, PC		Telephone Number 231-436-5223	
Street Address 580 South Nicolet Street, P.O. Box 996		City Mackinaw City	State MI
		Zip 49701	
Authorizing CPA Signature 		Printed Name Richard E. Mahlmeister, CPA	License Number 17351

MACKINAW AREA PUBLIC LIBRARY

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INDEPENDENT AUDITOR'S REPORT

November 25, 2006

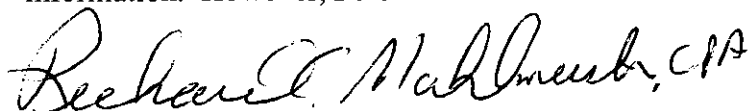
Members of the Board
Mackinaw Area Public Library
Mackinaw City, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund of the ***Mackinaw Area Public Library, Mackinaw City, Michigan***, as of and for the year ended June 30, 2006, which collectively comprise the ***Mackinaw Area Public Library's*** basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the ***Mackinaw Area Public Library's*** management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the ***Mackinaw Area Public Library***, as of June 30, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 4 and 18, are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



Richard E. Mahlmeister, C.P.A.

MACKINAW AREA PUBLIC LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Library's annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

As discussed in further detail in this section, the following represents the most significant financial highlights for the year ended June 30, 2006:

The assets of the Library exceeded its liabilities at the end of the fiscal year by \$232,436 (net assets) at the government-wide level. Of the total, \$138,477 represents capital assets, net of depreciation.

Revenues were \$161,656 (\$10,321 from program revenues and \$148,143 from general revenues). Overall expenses were \$165,447. The decrease in net assets was \$3,791.

At the close of the fiscal year, the Library's governmental fund reported a fund balance of \$93,959, a decrease of \$476.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts; 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Library.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year June 30, 2006.

The remaining statements are fund financial statements, which focus on individual parts of the Library in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

MACKINAW AREA PUBLIC LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Library as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Library's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Library's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Library's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Library, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of the Library are reported as governmental activities; where all financial operations are recorded in the General Fund.

THE LIBRARY AS A WHOLE

The comparison of net assets of governmental activities from year to year serves to measure a government's financial position:

Mackinaw Area Public Library Change in Net Assets June 30,

	GOVERNMENTAL ACTIVITIES	
	2006	2005
Assets:		
Current assets	\$94,809	\$95,455
Capital assets (net)	138,477	141,792
Total assets	<u>\$233,286</u>	<u>\$237,247</u>
Liabilities:		
Current liabilities	\$850	\$1,020
Total Liabilities	<u>\$850</u>	<u>\$1,020</u>
Net assets:		
Invested in capital assets	\$138,477	\$141,792
Unrestricted	<u>93,959</u>	<u>94,435</u>
Total Net Assets	<u>\$232,436</u>	<u>\$236,227</u>

MACKINAW AREA PUBLIC LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The Library's total net assets decreased \$3,791 over the total at the end of the previous fiscal year. The most significant portion of the Library's Net Assets is the investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Library used to acquire or construct the asset. The Library has \$93,959 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

The following table summarizes the results of the changes in Net Assets of the Library:

Mackinaw Area Public Library		
Change in Net Assets		
June 30,		
GOVERNMENTAL		
ACTIVITIES		
	2006	2005
REVENUES:		
Program revenues:		
Charges for services	\$1,442	\$1,364
Operating grants and contributions	8,879	8,962
General revenues:		
Property taxes	114,700	110,175
State revenues	3,387	4,085
Interest income	2,266	1,579
Penal fines	28,802	29,746
Other	2,180	2,558
Total Revenues	<u>161,656</u>	<u>158,469</u>
EXPENSES:		
Recreation and culture	<u>165,447</u>	<u>158,736</u>
Total Expenses	<u>165,447</u>	<u>158,736</u>
NET ASSETS:		
Decrease in net assets	(3,791)	(267)
Beginning Net Assets, as restated	<u>236,227</u>	<u>236,494</u>
Ending Net Assets	<u>\$232,436</u>	<u>\$236,227</u>

Governmental Activities

The Library's governmental revenues totaled \$161,656, with the greatest source being property taxes collected from the governmental units comprising the district. Property taxes have increased primarily due to increases in taxable value.

The Library incurred expenses of \$165,447 during the year. These expenses have increased \$6,711 over the prior year, primarily due to general increases in the cost of conducting operations.

MACKINAW AREA PUBLIC LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE LIBRARY'S FUND FINANCIAL STATEMENT

The fund financial statements provide more detailed information about The Library's funds. Funds are used to account for specific activities or funding sources. Funds are established to account for funding of specific financial resources and to show proper expenditure of those resources.

The Service has only the following type of fund:

Governmental Fund

The Library maintains one fund, the General Fund, which accounts for all the Library's governmental services. The Library is financed primarily by property tax revenue, state aid, contributions from private individuals and penal fines collected from Cheboygan and Emmet Counties. The Library's revenues totaled \$161,656. Expenses incurred for the fiscal year were \$162,132. Fund balance decreased by \$476 to \$93,959.

Capital Asset and Debt Administration

At June 30, 2006, the Library capitalized assets in the amount of \$17,251 consisting of a new digital copy machine, new books and audio/visual materials. Our capital assets of \$446,371 consist of land, building and improvements, books and audio/visual materials, computers and other office equipment.

At June 30, 2006 the Library had no debt outstanding.

GENERAL FUND BUDGETARY HIGHLIGHTS

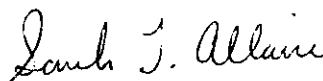
The adopted budget of the Library remained stable over the year without significant amendments.

FACTORS AFFECTING FUTURE OPERATIONS

Tax revenues continue to grow or remain stable. The Library is concerned about decreasing revenues from penal fines and State Aid.

CONTACTING LIBRARY MANAGEMENT

This financial report is designed to provide our citizens, and customers with a general overview of the Library's finances and to demonstrate the Library's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Library at 231.436.5451.



Sarah T. Allaire
Director



Nancy A. Campbell
President



GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MACKINAW AREA PUBLIC LIBRARY
STATEMENT OF NET ASSETS
JUNE 30, 2006**

ASSETS	GOVERNMENTAL ACTIVITIES
Cash and cash equivalents	\$35,190
Investments	53,322
Receivables:	
Due from other governmental units	6,297
Capital assets (Net of Accumulated Depreciation)	<u>138,477</u>
<u>TOTAL ASSETS</u>	<u>\$233,286</u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable	<u>\$850</u>
NET ASSETS:	
Invested in capital assets, net of related debt	138,477
Unrestricted	<u>93,959</u>
TOTAL NET ASSETS	<u>232,436</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$233,286</u>

The accompanying notes are an integral part of these financial statements.

**MACKINAW AREA PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	TOTAL
Primary government:				
Governmental activities:				
Recreation and culture	\$165,447	\$1,442	\$8,879	(\$155,126)
		General Revenues		
		Property taxes		114,700
		State revenues		3,387
		Unrestricted interest income		2,266
		Penal fines		28,802
		Other		2,180
		Total general revenues		151,335
		Change in net assets		(3,791)
		Net assets, beginning of year		230,962
		Prior period adjustment		5,265
		Net assets, beginning of year, as restated		236,227
		Net assets, end of year		\$232,436

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**MACKINAW AREA PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2006**

ASSETS

Cash and cash equivalents	\$35,190
Investments	53,322
Due from other governmental units	<u>6,297</u>

<u>TOTAL ASSETS</u>	<u>\$94,809</u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	<u>\$850</u>
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FUND BALANCE

Fund balance:

Reserved for children's programs	13,004
Designated for subsequent year expenditures	22,000
Unreserved, undesignated	<u>58,955</u>

<u>TOTAL FUND BALANCE</u>	<u>93,959</u>
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TOTAL LIABILITIES

AND FUND BALANCE

<u>\$94,809</u>

The accompanying notes are an integral part of these financial statements.

**MACKINAW AREA PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2006**

Reconciliation of fund balance on the balance sheet for governmental activities
to the statement of net assets

FUND BALANCE - TOTAL GOVERNMENTAL FUND \$93,959

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: capital assets	446,371
Subtract: accumulated depreciation	<u>(307,894)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$232,436

The accompanying notes are an integral part of these financial statements.

MACKINAW AREA PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES:	
Property taxes	\$114,700
State aid	3,387
Private donations	8,879
Penal fines	28,802
Book fines	1,398
Copy machine fees	1,159
Fax machine fees	283
Interest	2,266
Book sale	427
Miscellaneous	355
	<hr/>
TOTAL REVENUES	161,656
 EXPENDITURES:	
Salaries and wages	88,482
Employee benefits	6,864
Office supplies	2,365
Educational programs	1,275
Professional services	3,244
Printing and publishing	210
Communications	6,721
Transportation	451
Books and audio-visual materials	13,131
Periodicals and newspapers	3,186
Insurance	21,288
Utilities	7,193
Repairs and maintenance - supplies	1,649
Repairs and maintenance - labor	1,071
Miscellaneous	882
Capital outlay	4,120
	<hr/>
TOTAL EXPENDITURES	162,132
 EXCESS OF EXPENDITURES OVER REVENUE	 (476)
 FUND BALANCE - BEGINNING OF YEAR, AS PREVIOUSLY STATED	 89,170
 PRIOR PERIOD ADJUSTMENT	 5,265
 FUND BALANCE - BEGINNING OF YEAR, RESTATED	 94,435
 FUND BALANCE - END OF YEAR	 \$93,959

The accompanying notes are an integral part of these financial statements.

MACKINAW AREA PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

Reconciliation of statement of revenues, expenditures and changes in fund balances of
the governmental fund to the statement of activities

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND (5476)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, those costs
are allocated over their useful lives as annual depreciation expense in the statement
of activities.

Add: capital outlay capitalized during the current year	17,251
Subtract: depreciation expense	(20,566)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$3,791)

The accompanying notes are an integral part of these financial statements.

MACKINAW AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The *Mackinaw Area Public Library* is recognized as a legally established District Library pursuant to Michigan P.A. 24, Section 6, 1989, serving the Mackinaw City, Levering and Pellston areas of Northern Lower Michigan's Emmet and Cheboygan Counties.

The accounting policies of the *Mackinaw Area Public Library*, Mackinaw City, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

For external financial reporting purposes, the Library includes all funds that are controlled by or dependent on the District's legislative branch. The *Mackinaw Area Public Library* is considered to be a local governmental unit.

THE REPORTING ENTITY

The Library has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the library. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support (the library does not have any business-type activities).

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

MACKINAW AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989.

MACKINAW AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUND

Governmental Funds

General Fund - The General Fund is the general (and only) operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes, penal fines, state aid and contributions.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and savings accounts.

INVESTMENTS

Investments are stated at cost and consist of certificates of deposit with maturity values of three months or longer.

RECEIVABLES

Receivables consist of state aid and penal fines due from other governmental units.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There is no accumulated vacation, sick leave or post-employment benefits to be recognized.

CAPITAL ASSETS

Capital assets, which include property, furniture, equipment and books. Capital assets are generally defined by the Library as assets with an initial individual cost of \$750 and an estimated useful life in excess of one year, and all books and audio/visual materials. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

MACKINAW AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONTINUED)

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10 – 40 years
Computer, and office equipment	5 – 10 years
Furniture and fixtures	5 – 10 years
Books and audio/visual materials	5 years

FUND EQUITY

Reserved fund balances for governmental funds indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the Library has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Library follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Library Board of Trustees prepares a proposed operating budget for the fiscal year commencing on July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library Board of Trustees.

The Library Board of Trustee's budgetary procedures are in compliance with P.A. 621 of 1978 (The Uniform Budgeting Act).

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Library's, the approved budgets for the budgetary fund were adopted to the activity level. During the year, the Library did not incur expenditures in excess of the amount appropriated.

MACKINAW AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 3: CASH AND INTEREST BEARING DEPOSITS

The caption on the combined balance sheet relating to cash, cash equivalents and investments represent deposits in one financial institution located in Cheboygan County in varying amounts as follows:

Cash and cash equivalents	\$26,053
Investments	<u>51,963</u>
	<u>\$78,016</u>

All accounts are in the name of the Library.

Custodial Credit Risk – Deposits

The deposits do not exceed \$100,000 and, therefore, are covered by the Federal Deposit Insurance Corporation (F.D.I.C.). The Library may experience significant fluctuations in deposit balances through the year.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes units of local governments to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by the two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Library's deposits and investment policy are in accordance with statutory authority.

MACKINAW AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CAPITAL ASSETS

Capital asset activity for the current year was as follows:

	Balance			Balance
	July 1, 2005	Additions	(Deletions)	June 30, 2006
Not being depreciated:				
Land	\$15,000	\$ -	\$ -	\$15,000
Being depreciated:				
Buildings	171,859	-	-	171,859
Building				
Improvements	21,940	-	-	21,940
Computer equipment	30,282	-	-	30,282
Library & Office				
Equipment	22,323	4,120	(5,809)	20,634
Furniture & fixtures	86,267			86,267
Books and audio/visual materials	87,258	13,131	-	100,389
Subtotal	434,929	17,251	(5,809)	446,371
Less accumulated depreciation	(293,137)	(20,566)	5,809	(307,894)
Total	\$141,792	(\$3,315)	\$ -	\$138,477

Depreciation was charges to the Library's functions as follows:

Recreation and culture	<u>\$20,566</u>
------------------------	-----------------

NOTE 5: FUND BALANCE

Reserved fund balance

The reserved fund balance represents funds that are gifted to the Library and earmarked for children's programs. The amount of monies reserved for such purpose at June 30, 2006 was \$13,004.

Designated fund balance

The designated fund balance represents funds that are to be used to spend in the subsequent year. The amount of monies designated for such purpose at June 30, 2006 was \$22,000.

MACKINAW AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 6: PROPERTY TAXES

Property tax revenues shown in the General Fund reflect the 2005 Library levy on the assessed valuation of property located in the Counties as of the preceding December 31st. Taxable values are established annually by the Counties. The 2005 levy covers the Library's fiscal year of July 1, 2005 to June 30, 2006. The 2005 tax levy became a lien on properties on December 1, 2005, and was substantially collected by June 30, 2006. Taxes became delinquent on March 1, 2006. Property tax revenues from the participating governmental units generated \$114,700 for general operating purposes.

NOTE 7: PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2006, the beginning net assets and fund balance was restated to correct an error in the recording of penal fines and to reflect a \$5,265 increase. This adjustment does not affect current year operations.

NOTE 8: RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, suits, complaints, and employee injuries. In the opinion of management, all such potential matters are adequately covered by insurance and would not have a significant effect on the financial position or results of operations of the Library. Claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

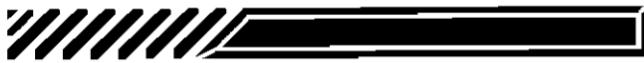
NOTE 9: ENDOWMENT

The Library has, on its behalf, an endowment fund established with the Straits Area Community Foundation to provide funds for its activities. The market value of the fund was approximately \$2,700 at the end of the year.

REQUIRED SUPPLEMENTARY INFORMATION

**MACKINAW AREA PUBLIC LIBRARY
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Property taxes	\$100,000	\$100,000	\$114,700	\$14,700
State aid	4,000	4,000	3,387	(613)
Private donations	7,500	7,500	8,879	1,379
Penal fines	27,500	27,500	28,802	1,302
Book fines	1,400	1,400	1,398	(2)
Copy machine fees	1,000	1,000	1,159	159
Fax machine fees	250	250	283	33
Interest	650	650	2,266	1,616
Book sale	500	500	427	(73)
Miscellaneous	200	200	355	155
TOTAL REVENUES	143,000	143,000	161,656	18,656
EXPENDITURES-RECREATION AND CULTURE				
Salaries and wages	86,000	86,000	88,482	(2,482)
Employee benefits	6,900	6,900	6,864	36
Office supplies	2,600	2,600	2,365	235
Educational programs	-	1,800	1,275	525
Professional services	5,000	3,200	3,244	(44)
Printing and publishing	150	150	210	(60)
Communications	6,400	6,400	6,721	(321)
Transportation	400	400	451	(51)
Books and audio-visual materials	15,300	15,300	13,131	2,169
Periodicals and newspapers	3,300	3,300	3,186	114
Insurance	25,000	25,000	21,288	3,712
Utilities	8,000	8,000	7,193	807
Repairs and maintenance - supplies	1,250	1,250	1,649	(399)
Repairs and maintenance - labor	1,000	1,000	1,071	(71)
Miscellaneous	700	700	882	(182)
Capital outlay	1,000	1,000	4,120	(3,120)
TOTAL EXPENDITURES	163,000	163,000	162,132	868
REVENUE OVER (UNDER) EXPENDITURES	(20,000)	(20,000)	(476)	19,524
FUND BALANCE - BEGINNING OF YEAR, AS PREVIOUSLY STATED	89,170	89,170	89,170	-
PRIOR PERIOD ADJUSTMENT	5,265	5,265	5,265	-
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	94,435	94,435	94,435	-
FUND BALANCE - END OF YEAR	\$74,435	\$74,435	\$93,959	\$19,524

RICHARD E. MAHLMEISTER

CERTIFIED PUBLIC ACCOUNTANT, P.C.

Member:
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

November 25, 2006

Members of the Board
Mackinaw Area Public Library
Mackinaw City, Michigan

In planning and performing my audit of the financial statements of ***Mackinaw Area Public Library*** for the year ended June 30, 2006, I considered the Library's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and recommendations regarding those matters. This letter does not affect my report dated November 25, 2006 on the financial statements of ***Mackinaw Area Public Library***.

Thank you for the opportunity to serve ***Mackinaw Area Public Library***. I always appreciate the assistance I received from the Director, Assistant Director and Staff during my audit. Best wishes in the next year.

Sincerely,



Richard E. Mahlmeister, C.P.A.

REPORTABLE CONDITION

Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition that exists is that there is a lack of segregation of duties in both the receipting and disbursement function of the Library. This condition is generally inherent in organizations the size of the Mackinaw Area Public Library, where corrective action is not practical, and is not necessarily considered to be a material weakness.

CREDIT CARD POLICY

Though the Library uses and timely pays off the balance of the Library credit card, no policy exists that authorizes the Library to use a credit card, as required by state statute.

I recommend that the Library adopt a written policy and meet the requirements established by state statute.